



Acting on Information

Performance management for the public sector



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The Advanced Institute of Management Research (AIM) develops UK-based world-class management research. AIM seeks to identify ways to enhance the competitiveness of the UK economy and its infrastructure through research into management and organisational performance in both the private and public sectors.

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Current AIM research projects focus on:

UK productivity and performance for the 21st century.

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National productivity has been the concern of economists, government policymakers, and corporate decision-makers for some time. Further research by scholars from a range of disciplines is bringing new voices to the debates about how the productivity gap can be measured, and what the UK can do to improve the effectiveness of UK industry and its supporting public services.

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Innovation is a key source of competitive advantage and public value through new strategies, products, services and organisational processes. The UK has outstanding exemplars of innovative private and public sector organisations and is investing significantly in its science and skills base to underpin future innovative capacity.

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Improved management practices are identified as important for enhancing productivity and performance. The main focus is on how evidence behind good or promising practices can be systematically assessed, creatively adapted, successfully implemented and knowledge diffused to other organisations that will benefit.

This briefing examines how public sector organisations can use performance data more effectively to support decision-making and produce improvements in organisational performance. In particular it looks at the challenge of converting performance data into insights and then acting on those insights.

Drawing on the academic literature, as well as some notable case studies from the private sector, we have identified five key 'best practice' lessons for organisations that want to extract greater insight from their performance data and to ensure that those insights are acted upon.

When performance measurement is seen as a means of control, as it often is, it can provoke dysfunctional behaviour within an organisation.

- 1 The role of performance measurement:** Performance measurement systems must be positioned as learning systems that enable individuals and teams to understand how their organisation's performance can be improved. When performance measurement is seen as a means of control, as it often is, it can provoke dysfunctional behaviour within an organisation.
- 2 Performance analyst capability:** Organisations must develop their performance analysis capabilities if they are to use measurement systems as learning systems. These can be developed in-house or accessed externally; through relationships with universities, for example. The key to learning through measurement is developing the capability to extract meaningful insight from performance data that can then be used to inform management debate.
- 3 The value of theory:** Strategy or success maps are an essential part of designing and deploying performance measurement systems. They allow the hypothesised relationships between different dimensions of performance to be visually represented and clearly identified. They make clear the links between measures, as well as the trade-offs associated with them. The most sophisticated organisations use their performance data to test the theories implicit in their strategy or success maps.
- 4 The performance review process:** The performance review process should be framed as a performance planning process, focusing on the likely impact of today's activities on future performance. When the performance review is framed as a process for exploring why individuals, teams and departments have failed to perform, it leads to a defensive and closed process. The shift in emphasis – from the past, to the future – and in focus – from performance review to performance planning – supports the move away from measurement as merely a system of control and instead facilitates learning.
- 5 The role of senior management:** Senior managers must play an appropriate role in the performance planning process. Frequently senior managers send a signal of mistrust to the organisation by asking for extensive and detailed performance data initially, and then continuing to ask for additional data. Instead, they must create the time for performance analysts to gather data and to analyse it for insights; as well as trusting them to do so.

introduction – performance management in the public sector

The challenge of extracting insight from performance data to support decision-making and bring about performance improvement is one that faces organisations in both the public and private sectors. The rapid adoption of measurement frameworks (the latest data suggest that between 30 and 60 per cent of organisations globally have adopted measurement frameworks such as the balanced scorecard and the performance prism) highlights the fact that organisations globally are struggling with issues of performance measurement and management.

Indeed it is interesting to note that the enduring challenges of measurement – the desire to quantify; the unanticipated consequences of quantification and the need for balance – have been debated in the academic literature for at least fifty years. That these challenges have been around so long and yet are still live issues for organisations is a testament to how difficult is it to design and deploy robust measurement systems.

This briefing explores how organisations can best make use of their performance measurement systems once they are in place. It provides a brief overview of recent developments in performance measurement, particularly in the public sector, as well as the main problems public service organisations face in measuring and managing their performance.

Performance measurement system design and deployment basics

There are four main processes in performance measurement system design and deployment: design of indicators and targets – which measures to select; implementation of the measurement system – how to access data and overcome the social, political, and cultural barriers; using the performance measurement system – how to analyse the data and ensure that action follows analysis; and review of the performance measurement system – how to manage and refresh the performance measurement system, so that it retains its relevance as the organisation develops and changes.

1 Performance management in the public sector

The way public sector organisations are being managed is changing. Governments spending large sums of money on public services are looking for a way to demonstrate that value for taxpayers' money is being delivered. Equally, in many advanced economies, especially the Anglo-Saxon countries, Scandinavia and the Netherlands, public services are under increasing pressure to improve efficiency and effectiveness, reduce demands on taxpayers, and yet maintain the volume and quality of services supplied to the public.

The new approach to public sector management is linked to an increasing interest in performance measurement in the public sector. Various private sector management techniques have been introduced, together with, in many cases, some form of neo-market system where purchasers and providers of public services are split and required to contract with each other. These reforms place great emphasis on agency performance, customer focus, stakeholder's interests and other methods of assessment.

In the UK, performance measurement and management have been pushed through all public sector levels. Organisations are required to measure and report their performance to improve public accountability and to become more efficient and effective.

A recent study of performance measurement in the public sector in England, shows how the role of performance measurement varies depending on the level of government being considered. For example, it can be used as a means of centralised control from top level through to frontline service delivery; as a means of local management control, with centralised performance frameworks merely providing guidance for the front line managers on appropriate priorities; or as a necessary component of delivering public accountability, hence the release of performance league tables and departmental annual reports.

The new approach to public sector management is linked to an increasing interest in performance measurement in the public sector.



It is questionable, however, whether the same performance measures, and certainly the same performance review processes, can be used to satisfy all of these objectives.

These questions are even more relevant given the scope of the performance measurement task, currently there are 101 Public Service Agreement (PSA) targets in England. With the resources this consumes it becomes extremely important for the public sector to be clear about the role and value of performance measurement, as well as its impact.

Performance measurement can be productive and help improve organisational performance. If done poorly, however, it can be very costly. Not merely ineffective but harmful, destructive even. With the levels of investment being made by organisations in their performance measurement systems, the question of how to maximise their value and contribution becomes an extremely pertinent one.

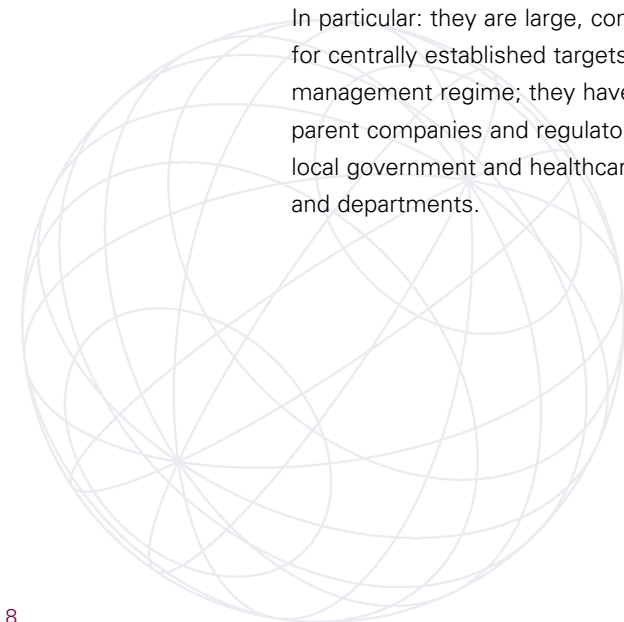
The costs of measurement

Two recent studies from the private sector highlight the cost of measurement. An estimate from the Hackett group suggests that the average organisation with \$1 billion sales spends 25,000 person days planning and measuring performance. Additionally, a study completed by Cranfield School of Management found that organisations such as Volvo believed that up to 20 per cent of management time was associated with planning and budgeting, while Ford report that they spend in the region of \$1.2 billion a year on their budgeting process.

2 Acting on information: lessons from the private sector

The following two sections focus specifically on the use of performance information to support decision making processes. They feature two case studies, EDF Energy and DHL UK, chosen because they exhibit good practice, and because they are comparable in style and complexity with many public service organisations.

In particular: they are large, complex organisations; they have devolved responsibility for centrally established targets, similar to the UK's public sector performance management regime; they have a wide range of stakeholders, including suppliers, parent companies and regulators; they consist of multiple branches, just as most local government and healthcare organisations are made up of multiple services and departments.



performance lessons from the private sector – EDF Energy Networks

UK based energy distribution company EDF Energy Networks (EDF Energy), has a turnover of over £3.6 billion, generates around seven per cent of the UK's electricity, and employs more than 11,300 people. Its distribution network supplies over a quarter of the UK population.

EDF Energy operates in a regulated environment, which make this company comparable to many public sector organisations. For example, its product prices and expansion plans are constrained by regulators.

It also faces the traditional public sector problem of managing the demands of multiple stakeholders', including:

- the government department which regulates and evaluates provided services, but is not the 'end customer';
- local authorities that moderate and negotiate service delivery and are 'intermediate customers';
- end users of the services, who play little role in defining targets for the electricity supplier – 'end customers'.

EDF Energy operates in a regulated environment, which make this company comparable to many public sector organisations.



In 2000, EDF Energy faced some significant challenges, a three per cent income reduction, re-adjustments of regulatory law and strong pressure to improve customers' supplies. Internally EDF Energy was integrating two new companies as a result of a merger.

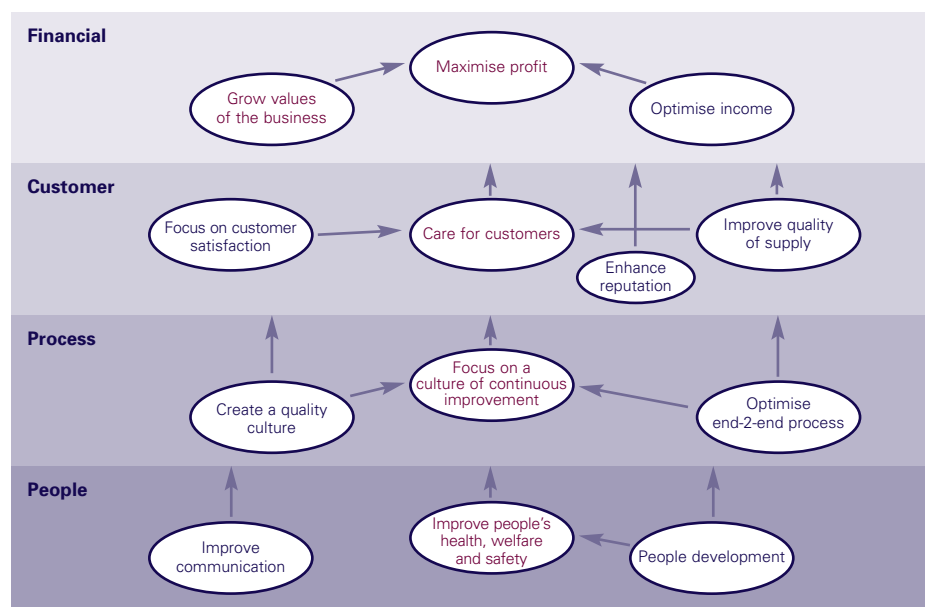
In order to help the business address these challenges the firm decided to develop a performance measurement and management system; with four specific objectives: to improve productivity; to enhance reputation; to improve customer service; and to be more focused in its use of resources. EDF Energy uses its performance measurement to inform its decision making processes, focus people's attention, and achieve organisational improvement. To date, EDF Energy has increased its productivity, improved customer satisfaction and moved up one level in the energy supply league table.

1 Characteristics of EDF Energy's performance management system

EDF Energy uses strategy maps (see Figure 1) and the balanced scorecard framework with a few in-house adaptations.¹ At the top level, EDF Energy has an executive strategy map, based on the company ambitions, corporate objectives, divisional objectives, regulators' targets and business strategy. The executive scorecard is based on this strategy map, which in turn forms the basis for the business units' strategy maps and scorecards. Scorecards for functional units are created in a similar way. This process is deployed to the individual level. Ultimately every individual has three to five measures for which they are responsible. Essentially EDF Energy is seeking to ensure alignment throughout the organisation using scorecards, strategy maps and associated performance measures.

To emphasise priorities the executive strategy map and scorecard has just a few measures, with the organisation's strategic priorities being highlighted in red. These serve as reference points for employees as they seek to prioritise, balance and assess decisions. A particularly important feature of EDF Energy's approach is its attempt to translate centrally defined objectives and targets into information that is relevant throughout the organisation, thereby improving decision-making and ensuring alignment of objectives (Figure 1).

Figure 1: Extract from EDF Energy strategy map level 2



Group decisions are made by teams, and the risk taken is shared among the decision makers.

At the strategic level, the chief operating officer and senior managers agree the objectives, measures and targets for the executive scorecard. Targets are based on past performance and future aspirations. In EDF Energy, targets are to be stretched but not imposed. Employees can set their own targets, under supervision from senior managers and members of the performance management team.

Employees can change targets if they make a good case for change i.e. show trend and performance data. With EDF Energy's scorecards, the traffic light system (Red-Amber-Green) indicates current performance against targets. As EDF Energy operates with stretch targets, it is less important to have all measures in green as 'targets achieved', than it is to show improvement trends. This attitude towards improvement encourages organisational learning.

At the operational level, objectives and measures are designed in collaboration with employees and managers. Measures and targets are defined in teams and negotiated with upper organisational levels. Our interviews with employees at different levels suggest that EDF Energy has a strong orientation towards organisational improvement. Great emphasis is placed on performance improvement and employees feel engaged in the target setting and monitoring processes. This appears to facilitate organisational learning. Indeed EDF Energy makes significant effort to open conversations about performance improvements, identify problem areas, analyse and evaluate performance, make decisions and learn. The company is not just concerned about making decisions, but it actively strives to learn from past decisions and create a culture of continuous improvement.

2 The decision making process

In EDF the performance measurement and management systems play an important role in the decision making process. The performance measurement system enables the company to: highlight current status of the organisation's performance; prioritise actions; provide comparative information about branch performance; supply historical performance information on specific areas; and make available lessons learnt from previous decisions taken, in the form of experiences.

Our analysis of EDF Energy's decision making process highlights important distinctions between group and individual decisions. Group decisions are made by teams, and the risk taken is shared among the decision makers. They are frequently used at operational level to improve performance, solve operational problems and decide action plans. Individual decisions involve a decision maker who is responsible for the outcomes and any associated risks.



An important part of EDF Energy's approach is its reliance on continuous feedback.

The decision making process for both group and individual decisions is similar:

- gather performance data from the performance measurement and management systems;
- gather contextual data about the circumstances – where and how the issue arose;
- meet and discuss (past and present) performance;
- evaluate the impact and priority of a particular issue given the priorities outlined on the strategy map;
- deeply analyse the problem;
- generate potential solutions;
- establish a list of potential action plans/solutions and identify the expected impact of each potential action;
- evaluate the best solution for a problem at that particular moment in time.

If the solution requires unscheduled investment, it has to be discussed in a review panel with senior managers; otherwise, the budget is analysed and the action plan is implemented. Based on feedback from initial outcomes, the decision could be strengthened or re-directed. Finally, if the solution proves to be very successful, it is disseminated throughout the organisation as a best practice.

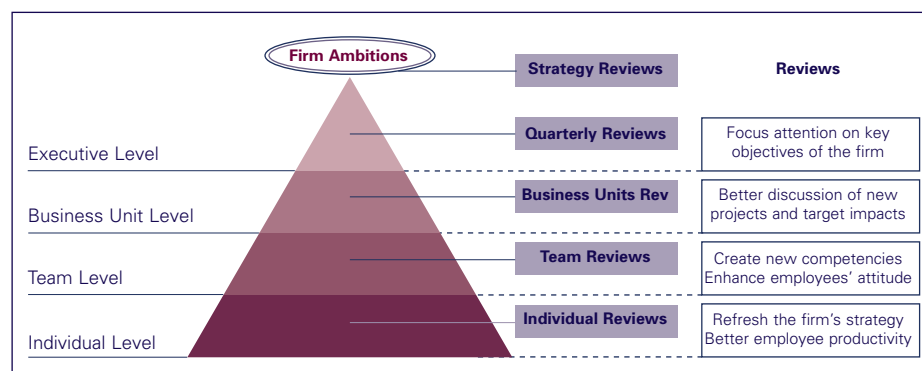
3 Continuous feedback

An important part of EDF Energy's approach is its reliance on continuous feedback. Once a decision has been taken and the action plan implemented, the solution is monitored and the feedback constantly evaluated in order to: identify if the solution solved the problem; analyse the impact of the solution on other operations; enhance the solution; and identify when it is no longer needed.

4 Performance reviews

EDF Energy has formal and well-structured performance reviews at different organisational levels (see Figure 2). Each review has different objectives, uses review panels and operates on a different frequency. EDF Energy provides performance feedback from the operational to the strategic level and enables the evaluation of decisions taken and action plans implemented. EDF Energy processes are also designed so that they fertilise good practice and the sharing of knowledge (see Continuous learning).

Figure 2: Structure of performance reviews



5 Continuous learning

As the EDF Energy case shows, the organisational learning process starts when a problem is identified and evaluated, continues with the analysis of potential solutions and decision making process, and lasts until the solution to the problem is implemented and reviewed.

Continuous learning is encouraged through the 'fertilisation scheme' used to disseminate and store good lessons that have been learnt. Good practices and knowledge are mainly captured during team reviews and quarterly meetings. Employees suggest 'good practices' during the meeting. The benefits of those practices are evaluated by managers and a member of the performance management team. If agreed as good practices, they are stored in an electronic database, communicated to the managers of functional and business units and disseminated through to team members who discuss the practices and possibly implement them.

The resource-based view of the firm suggests that long-term competitive advantage resides in the organisational capabilities, skills and knowledge to create new solutions to solve problems and fulfill stakeholders' expectations. EDF Energy clearly seeks to learn lessons from past decisions, to strengthen employees' analytical skills, enhance decision makers' confidence and improve organisational capabilities.



6 Effects of performance measurement

EDF Energy's approach to performance measurement had both positive and negative consequences.

On the plus side there were three main benefits. An emphasis on performance measurement enhanced the analytic problem solving skills of employees. The measurement systems allowed employees to identify problem areas, explore the root causes of these problems and generate and assess potential solutions. The firm was able to stimulate open debate about performance, which then led to the identification of appropriate actions.

There were some subtle additional benefits. At the business unit level, the scorecard created habits or routines that forced managers and teams to spend time together discussing performance, analysing solutions, taking decisions, setting up actions and reviewing impact. This culture of problem identification and the constant search for solutions is symptomatic of an organisation seeking to use its measurement systems as a learning system rather than a control system.

The third positive effect of performance measurement concerned the creation of habits – in terms of documenting, monitoring and communicating the outcomes of decisions (and action plans). EDF Energy deliberately built mechanisms – including ‘fertilisation teams’ – to ensure good decisions were disseminated throughout the organisation.

The one downside identified was the potential danger that the performance measurement system could be too mechanistic. This is especially an issue at the strategic level. With strategic decisions there is often a need for reliance on experience, rather than a naive insistence that the only inputs that matter are those that are formal and quantified.

7 Lessons from EDF Energy: extracting insight from data

The way that EDF Energy has effectively exploited the potential of its performance measurement and management systems is instructive. It reveals a number of important lessons:

- There is value in using a comprehensive performance measurement that encompasses multiple perspectives of organisational performance. Especially when this system is based on strategy maps linked to different stakeholders’ objectives and ambitions;
- When deployed across multiple levels the strategy map can provide a framework for localised decision making;
- Developing joint performance measurement systems with key suppliers, including contractors and intermediate customers (such as city councils, in the EDF Energy case) enhances the organisation’s understanding of the needs and expectations of its stakeholders;
- To ensure measurement informs decision making and action, formal performance review processes need to be in place;
- The focus of these reviews should be on the generation of insightful discussion and improvement, not just the accuracy of measures;
- Widespread ownership of the performance measurement system is essential if widespread decision making is to be made legitimate. Employees should own their own measurement systems. They should be responsible for designing and deploying these measures and setting appropriate targets;
- Establishing explicit mechanisms for sharing and fertilising promising practices is a valuable way of transferring organisational knowledge.

performance lessons from the private sector – DHL UK

DHL, the global international express courier company, employs over 170,000 people, operates in over 220 countries and delivers over one billion shipments per year.

In 1999, there was a concern at the UK subsidiary, DHL UK, that the division's performance reviews were in danger of becoming too tactical in orientation. David Coles, managing director of DHL UK, and Drew Morris, the company's business process director, began looking at the way it used its performance information and reviewed its performance. At the time sales for the division were in excess of £300 million and the business employed almost 4,000 people, across 50 locations.

The executive team recognised that the performance reviews had evolved haphazardly and the performance review process needed to be planned to address the requirements of an organisation of the size and complexity of DHL.

1 Identifying what to review: applying the Performance Prism

DHL's executive team decided to adopt a stakeholder orientated measurement framework – the Performance Prism – to help structure the debate about what to review.²



In 1999, there was a concern at the UK subsidiary, DHL UK, that the division's performance reviews were in danger of becoming too tactical in orientation.

The Performance Prism (see Figure 3) consists of five facets:

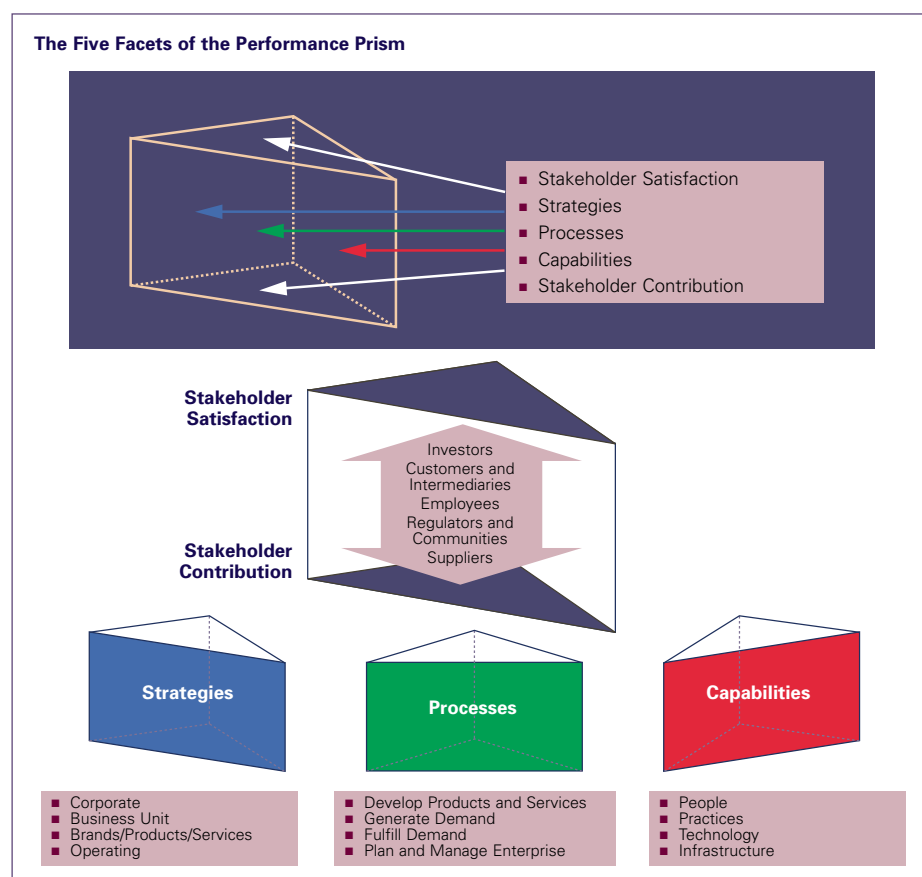
- **Stakeholder Satisfaction:** who are the key stakeholders; what do they want and need?
- **Strategies:** what strategies must be put in place to satisfy the wants and needs of the key stakeholders?
- **Processes:** what critical processes are required to execute these strategies?
- **Capabilities:** what capabilities are needed to operate and enhance these processes?
- **Stakeholder Contribution:** what contributions are required from the stakeholders to maintain and develop these capabilities?

The framework guided a series of workshops in which the executive team first identified the needs, wants and contribution of the businesses' stakeholders; and then identified the strategies, processes and capabilities needed to satisfy the needs and wants of each stakeholder.

Next, a success map for the business was constructed that summarised the strategies, processes and capabilities required to ensure that the stakeholders were both satisfied, and made an appropriate contribution.

The resulting success map had over 100 bubbles on it, and demonstrated all the issues the business faced, helping the management team to develop a shared understanding of the business' context.

Figure 3: The Performance Prism



...the map was used to focus attention on the high priority issues and determine which key questions the team needed to address.

2 What to review: identifying the questions

Although there were too many issues highlighted on the success map to discuss all of them at each quarterly review, the map was used to focus attention on the high priority issues and determine which key questions the team needed to address.

The team realised that quarterly performance review wasn't for discussing operational minutiae, such as how many packages arrived on time, but for debating the key strategic issues facing the business. The team needed to access insights that would help them engage with these issues.

3 Designing the performance review

Once the key strategic questions to be debated at the performance reviews were selected, attention turned to developing the appropriate support infrastructure. What performance data would be required to answer the questions? And how could the data be gathered?

The performance reviews were also modified. The agenda for the business' quarterly performance review was restructured around the key questions identified by the executive team (see Figure 4). Crucially the performance analysts were invited to participate in the performance reviews, an obvious step considering they were much closer to the data than the executive team.

To allow them to operate effectively in their new role the performance analysts were equipped with the necessary skills to analyse the data and provide coherent and well-grounded answers to the key questions. DHL put in place a training course, followed by discussion workshops to make sure this happened.

Supporting implementation and operation of the new performance review process were internal and external facilitators who, with the support of the managing and business process directors, were able to shift the mindset of the executive team away from detailed operational reviews towards a more strategic debate.

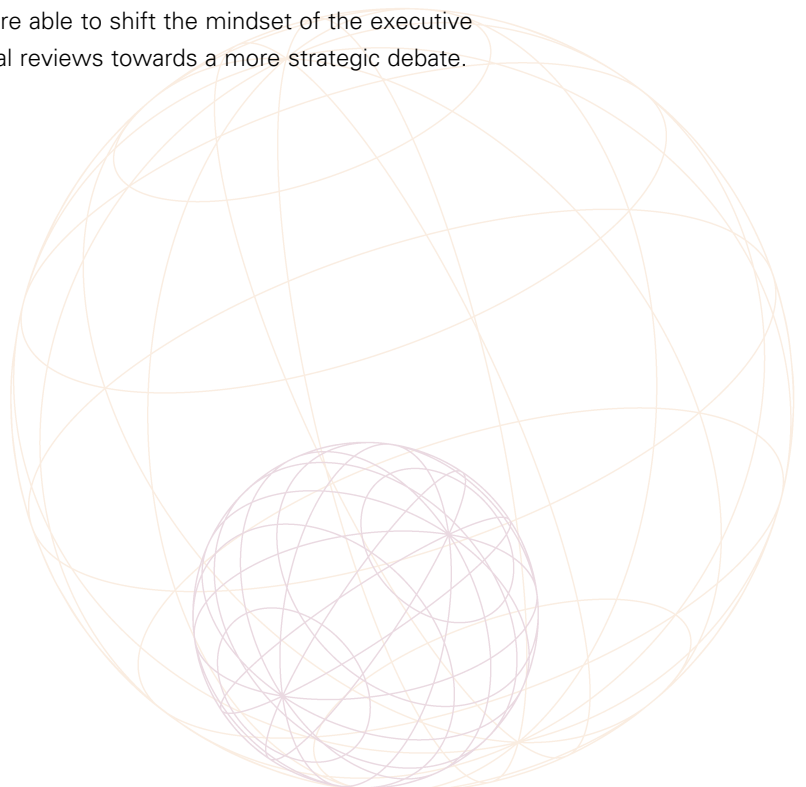


Figure 4: DHL UK's key questions

Day One

0900 Setting the scene – top line NR results and forecast Financial Analyst
GCC NR & Cost – Are we going to deliver NR target for the year?

0930 Customers Commercial Overview
– How are our customers feeling and what are they doing?
– What are our competitors doing?
– Are we positioned well in the market?
– Is our revenue quality strategy working?
– Is our revenue volume strategy working?
– Is the CRM strategy working?
– Do we have the processes to support our strategies for CRM?
– Do we have the £s to sustain market leadership?
– Do we have the HR resource to drive differentiation?
– Do we have the right product offering?
– Do we have the information to manage these processes?

1000 Questions – Commercial Overview

Tea/coffee

1025 Customers Customer Interface
– How are our customers feeling and what are they doing?

1055 Questions – Customer Interface

1105 Customers Strategic Business Unit
– What are our customers doing?
– Is our revenue quality strategy working?
– Is our revenue volume strategy working?
– Do we have the processes to support our long-term strategies?

1135 Questions – SBU

1145 Customers Relationship Business Unit
– What are our customers doing?
– Is our revenue quality strategy working?
– Is our revenue volume strategy working?
– Do we have the processes to support our long-term strategies?

1215 Questions – RBU

1225 Customers Direct Business Unit
– What are our customers doing?
– Is our revenue quality strategy working?
– Is our revenue volume strategy working?
– Do we have the processes to support our long-term strategies?

1255 Questions – DBU

1305 Lunch

1345 Review of issues and resulting actions for Customers ALL
Covering commercial and business units

4 Ongoing evolution of the performance reviews

DHL has continued to evolve its measurement system and review processes, beyond implementation of the new quarterly performance review meeting structure, making five significant innovations:

(a) The role of the board

The board members' role at the quarterly performance reviews has changed. Instead of presenting summaries of the performance analyst's work, board members sit as a united group receiving and debating presentations made by the analysts. This enables board members to discuss: the quality and comprehensiveness of the analysis; and the implications of the analysis for the business. Thus the senior executive team's attention is focused on strategic issues and decision making, leaving business analysts to focus on the performance data to support these decisions. With this change DHL has shifted away from using measurement data as a political weapon, towards using measurement data as a means of developing collective insight into the issues facing the business.



Instead of presenting summaries of the performance analyst's work, board members sit as a united group...

(b) Focus on action, not measurement

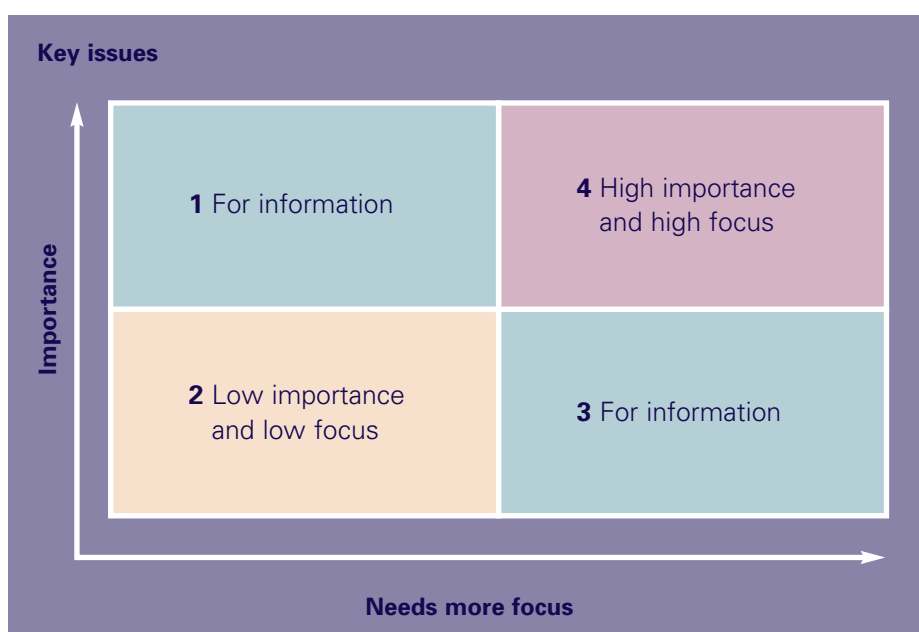
The redesign of the quarterly review process and associated questions was a success. Consequently, in an effort to extend the emphasis on action, and away from measurement within the business, DHL rolled the process out across the UK, with every branch and region establishing their own version of the quarterly review process, addressing the same key questions for the business.

(c) Prioritising actions

Another change DHL made to the performance review process was to be much more explicit about which of the potential actions identified would have the greatest pay-off. This was done in several stages:

- evaluate the impact of each specific action on the customer using the HDIATC (How Does It Affect The Customer) programme, which requires the board to consider the impact of each proposed action on DHL's customers;
- prioritise actions based on importance and the required focus (see Figure 5);
- use the appropriate methodologies, including: cause and effect analysis; cost benefit analysis; and capability and resource analysis.

Figure 5: DHL's framework for considering priorities



(d) Driving accountability through the issues management process

Once categorised, initiatives entered the issues management process, especially if they were of high importance.

For each initiative, formal project records were developed tracking issue, action and progress. The records were then used by the performance manager to track progress on each issue, on a day-to-day basis, using a simple RAG (Red-Amber-Green) reporting mechanism. The tracking mechanism was retained until all the high importance issues, were receiving an acceptable level of attention.

This way DHL ensured the priority issues facing the business were dealt with, and created explicit individual accountability, not simply for delivering performance figures, but for driving improvements in underlying performance.

(e) The analyst community

As the new review process took hold, the performance analysts formed their own community. They met prior to the board's quarterly performance reviews to screen each other's presentations, look for overlaps and common ground, and extract valuable cross-functional insights from the data. The analyst community's meetings and discussions ensured that an integrated view of the organisation's performance was presented to the board for discussion.

Developing the capability to extract cross-functional insights from data and interpret those insights is an essential requirement for organisations as the volume of performance data increases. Without this capability, organisations will continue to fail to take advantage of their significant investments in performance measurement.

...DHL ensured the priority issues facing the business were dealt with, and created explicit individual accountability...

5 Lessons from DHL: extracting insight from data

As with EDF Energy, it is possible to extract generic lessons from the DHL case about the ways in which performance measurement and associated management systems enable the use of performance data. In the DHL case these lessons are:

- Address the wants and needs of multiple stakeholders in the performance measurement system design process, as it broadens the perspectives adopted;
- Involve the firm's senior management team in the performance measurement system design process is a good way to generate the necessary buy-in to the system. The design process itself enables the senior management team to debate what defines success for DHL;
- Focus on the questions to be answered rather than the items to be measured. This enables the senior management team to break the habit of reviewing detailed operational performance data at strategic reviews;
- Continuous review of the review process is important. At DHL the senior management team systematically reviewed the review processes on an ongoing basis, constantly seeking to improve them;
- Be clear about the roles of different people in the performance review process. In DHL's case the separation between board members and performance analysts was particularly valuable enabling both parties to focus on contributing in areas where their skills lay;
- Delivering value requires an adequate focus on action rather than a dominant emphasis on measurement. Identifying appropriate processes for accountability and issues management is essential.

The examples of EDF Energy and DHL UK, taken together with the theory, enable some key lessons to be drawn in relation to performance measurement and management. These are lessons that are clearly applicable to public sector organisations and relate to:

- the role of performance information: learning not control;
- performance analyst capability;
- the value of theory;
- the performance review process;
- the role of senior management.

1 The role of performance information: learning, not control

Performance measurement systems should be used to enable individuals and organisations to learn; not merely as control mechanisms. Both EDF Energy and DHL have established processes and routines – formal and informal – that enable individuals to learn through measurement. Even though this learning often results in people challenging the assumptions they hold about how their organisation operates.



This type of learning is called double loop learning, as opposed to single loop learning. In single loop learning corrective action is taken to bring performance back on track. In double loop learning questions are asked about whether the track was right in the first place.³

Shifting from measurement as a system of control, to measurement as a system of learning, does, however, require some subtle changes.

Balancing formal and informal approaches is essential if the measurement emphasis is to move away from control and towards learning. Both DHL and EDF Energy have improved their formal performance review processes, but have also paid attention to the softer issues. To signal the change in orientation DHL adopted the phrase 'performance planning' instead of 'performance review'. At EDF Energy, senior managers devoted significant time to creating a culture of openness and debate, where insights contained in the measurement data may be debated freely.

There should also be a focus on sharing learning and experience. EDF Energy's formal 'fertilisation scheme' is a good example. Other organisations adopt slogans to summarise their approach. Siemens, for example, with its RAG (Red-Amber-Green) reporting, uses the shorthand – AORSOG: act on red, share on green.

With best practice sharing schemes two important issues to bear in mind are the questions of context and the ability to absorb. 'Best' practices in one context, may not be best, or even adoptable, in another. The challenge for organisations seeking to extract insight from their data is to adopt the bundle of practices that fit best with their specific circumstances and needs.

2 Performance analyst capability

Performance analysts play a crucial role in effective performance measurement and management. Both DHL and EDF Energy established performance management infrastructures – often embodied in performance management teams – that provided support, not just for the processes of measurement, but also for the processes of extracting insight from data and sharing these insights once they had been extracted and validated.

At DHL the performance analyst community filled this key role, while at EDF Energy it was the fertilisation teams, which were additionally tasked with disseminating good practice once established.

Organisations must ensure the team members have the appropriate knowledge and skills. Performance analysts need strong quantitative and qualitative skills – including political and social skills. They must be able to analyse the firm's data using valid statistical approaches and then have the intuitive skills to explain the data, and the social skills to be able to persuade others of the validity of their analyses.

This combination of skills – the ability to quantitatively analyse data, intuitively extract insight, and sensitively communicate these insights – appears to be in relatively short supply in many organisations.

3 The value of theory

One tool widely advocated for performance measurement system design is success or strategy mapping, which involves building a causal model of the hypothesised links between an organisation's performance measures. In the case studies, both DHL and EDF Energy used causal models. The process of having individuals articulate their own causal models can often expose hidden differences of opinion which can then be examined and debated.

One way to think of causal models is to consider them as summary theories about how an organisation works – 'we do X because we believe it will result in Y' (see below). Although oversimplifications of reality, causal models are valuable because they provide a framework for the performance analysts to extract insight from data through the performance review process (see section 4, opposite).

Causal models in the public service: the Health Service

There are a host of targets and indicators in the UK Public Service, many of which appear only loosely connected or correlated. One way of reviewing them would be to convert them into causal models. An over-riding objective for the Health Service, for example, is to reduce waiting lists. To achieve this hospitals are investing in capacity. In particular they are investing in more doctors and nurses, in the assumption that this equates to greater capacity. Greater capacity, should lead to more operations and a consequent reduction in waiting lists.

This set of statements translates to a causal model in the form:

Increase numbers of doctors and nurses >> increase capacity >> undertake more operations >> reduce waiting lists.

The challenge is to link this strand of the Health Services' causal map with other strands implicit in other targets and indicators. Building causal maps this way both illustrates the coherence between sets of performance measures, and also highlights inherent conflicts or trade-offs.

4 The performance review process

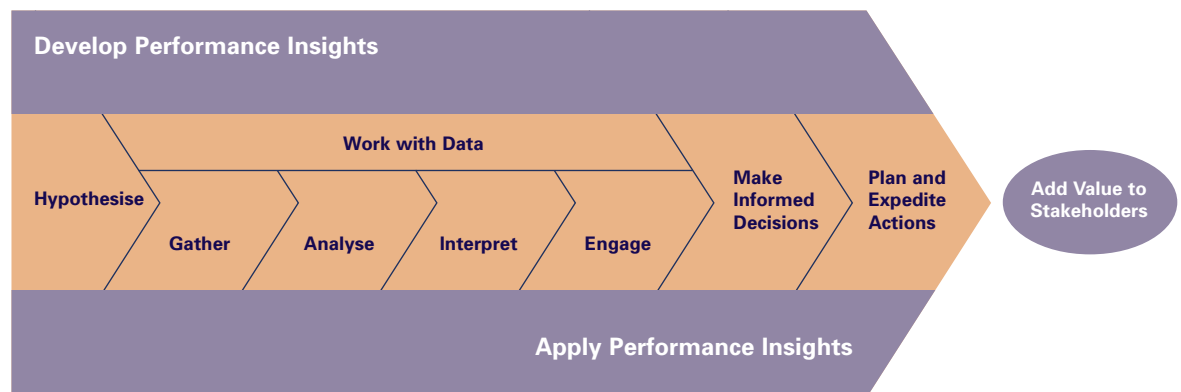
The performance review process is an important element of the performance management system. Performance analysts gather data from multiple sources and collate it to develop a meaningful and justifiable interpretation, which the senior management can then consider and evaluate.

Both DHL and EDF Energy have adopted similar processes for their performance reviews. The structure underpinning both organisations' performance review (particularly their analysis process) is encapsulated in the performance planning value chain shown in Figure 6.

Note the emphasis on planning future performance, rather than reviewing past performance. The focus of performance planning reviews should be 'how do we get to where we want to be' rather than 'why are we where we are now'.

If the performance reviews are set up as an interrogation then participants will behave defensively. They will come to performance reviews armed with reasons and excuses to explain why performance is not as good as expected. This interrogative approach can become extremely destructive. What matters is focusing on the future: how do we get to where we want to be, given where we are now?

Figure 6: The performance planning value chain



5 The role of senior management

Senior managers play a key role in determining the effectiveness of performance reviews in organisations.

DHL found it difficult to extract insight from its data due to the tendency for senior management to request increasing amounts of data. Before the performance review redesign, DHL's senior managers used to try to analyse detailed performance data in real time during the performance reviews. This resulted in many supplementary questions, which in turn led to requests for additional data. The performance analysts would then process these requests generating yet more data for the next meeting, during which the whole process would be repeated, and so on.

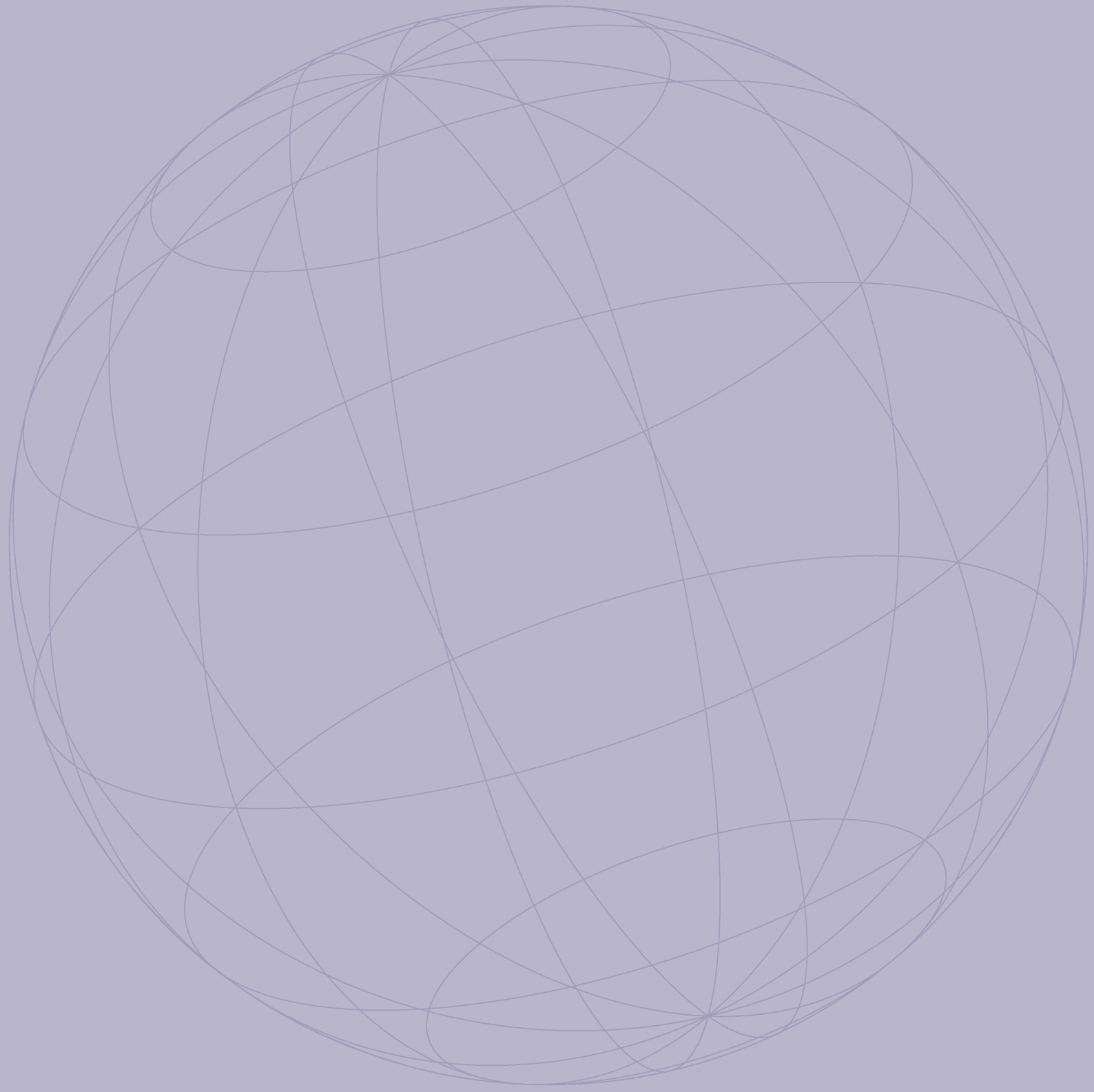
After the redesign the performance analysts worked with the data. The role of DHL's senior management team was to question the quality of the analysis, make informed decisions and expedite actions once satisfied with the evidence as presented.

To arrive at this change in roles DHL's senior management team had to accept a change of emphasis. Effort in the performance measurement and management process was not only to be expended on gathering data – the small box labelled 'gather' in the performance planning value chain – but also on analysing and interpreting the data to extract insight from it. Even if, as in the case of EDF Energy, it means equipping people with new skills so that they can address all stages of the performance planning value chain.



Effort in the performance measurement and management process was not only to be expended on gathering data...

- ¹ The phrase strategy map was first coined by Bob Kaplan and David Norton in their 1996 book on the balanced scorecard – see: Kaplan, R.S. and Norton, D.P., (1996). 'The Balanced Scorecard: Translating Strategy Into Action', Harvard Business School Press, Boston, MA.
- ² For further details on the performance prism see Neely, A.D., Adams, C. and Kennerley, M. (2002). 'The Performance Prism: The Scorecard for Measuring and Managing Stakeholder Relationships', Financial Times/Prentice Hall, London.
- ³ For a much fuller discussion of the distinction between single and double learning see the work of Argyris, C., and Schon, D.A., (1978). 'Organisational Learning: a Theory of Action Perspective'. Reading, MA., Addison-Wesley.



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